



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.

Investigation 07-03-019
(Filed January 11, 2007)

In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.

Application 06-09-006
(Filed September 6, 2006)

Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.

Application 06-10-026
(Filed October 23, 2006)

Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.

Application 06-11-009
(Filed November 20, 2006)

Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.

Application 06-11-010
(Filed November 22, 2006)

Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.

Application 07-03-019
(Filed March 19, 2007)

**REPLY OF CALIFORNIA WATER SERVICE COMPANY TO
COMMENTS ON THE SETTLEMENT BETWEEN IT AND THE DIVISION
OF RATEPAYER ADVOCATES AND THE UTILITY REFORM
NETWORK**

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Before the Public Utilities Commission of the State of California

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I. INTRODUCTION

Pursuant to Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") and the May 29, 2007 Administrative Law Judge's Ruling," California Water Service Company ("Cal Water") hereby submits its reply to the comments filed June 29, 2007 on the Settlement between Cal Water and The Utility Reform Network ("TURN") and the Division of Ratepayer Advocates ("DRA") filed on

June 15, 2007. (“Settlement”). The Settlement proposed a conservation rate design, Water Revenue Adjustment Mechanism (“WRAM”) and a Modified Cost Balancing Account (“MCBA”). Individual comments were filed by the Consumer Federation of California (“CFC”), Disability Rights Advocates (“DisabRA”). Joint comments (“Joint Comments”) were filed by the National Consumer Law Center (“NCLA”), the Latino Issues Forum (“LIF”), and the Consumer Federation of California (“CFC”). In addition the DRA filed a report in this proceeding on June 29 entitled “Phase 1A Report of the Division of Ratepayer Advocates Regarding Suburban Water Systems,” which in part deals with the issue of data collection and customer education for all Class A water utilities.

We note the CFC makes reference to Cal Water’s supporting testimony to its A06-10-026. Cal Water also makes reference to supporting testimony in these comments. In accordance with Rule 1.7 (b), the testimony of David Morse and supporting exhibits were served on the Chief ALJ and all active parties. Cal Water intends to present the testimony and supporting into evidence at the phase 1 hearings in this proceeding.

Cal Water will respond first to the Joint Comments and DisabRA comments which deal with issues concerning consumer notice/education and data collection. Subsequently, Cal Water will respond to the individual comments from CFC.

II. CONSUMER NOTICE/EDUCATION AND DATA COLLECTION

Cal Water is pleased that the “Joint Comments “generally support the goals of the Amended Settlement Agreement.” Cal Water is generally supportive of the Joint Comments regarding data collection and consumer education and outreach.

The DRA has recommended “that, in Phase 2 of the OII, the Commission address in a comprehensive manner the public outreach and monitoring/data collection requirements that should accompany the conservation rate designs and

LIRA Programs of all of the Class A water companies.”¹ Cal Water is supportive of this recommendation with one exception: Phase 2 should not address public outreach and monitoring data regarding Cal Water’s low income program. Although the DRA/Suburban settlement includes a LIRA program, Cal Water already has a LIRA program approved by the Commission. Since this is a “conservation” investigation, Cal Water believes that the proceeding should focus on conservation issues. The proceeding should not be used to make refinements to Cal Water’s existing LIRA program. Cal Water does agree, however, that it is relevant to consider the impact of conservation rates on LIRA program participants.

The Joint Comments and comments of DisabRA regarding data collection and customer education should not be used as a basis to reject the settlement. Rather these comments should be considered in phase 2. Cal Water will work with DRA, CFC, LIF, NCLA, and LIF and other Class A water utilities on customer education and data collection issues related to conservation rates. Cal Water hopes to have some type of an agreement worked out in the near future.

Cal Water does not support the Joint Comment’s recommendation that the Settlement be modified to include a statement regarding conservation funding. There is no need for such a requirement as part of the Settlement as there is ample evidence that Cal Water is already pursuing increased conservation programs. For example:

1. Cal Water is a member of the California Urban Water Conservation Council. Cal Water is pursuing the Council’s Best Management Practices, which include the 4 types of programs noted in the Joint Comments in addition to many more.
2. Cal Water’s 2007 general rate applications, filed on July 1, 2007 proposes conservation budgets for the Districts: Chico, East Los Angeles,

¹ DRA, “Phase 1A Report of the Division of Ratepayer Advocates Regarding Suburban Water Systems.”

Livermore, Los Altos, Mid Peninsula, Salinas, Stockton, and Visalia at a funding level equal to 1.5% of revenues.

3. Cal Water's 2006 GRC application, with TY 06/07 (A.06-07-27, et. al), is currently before the Commission and contains a similar request for funding of Conservation Programs for the 2006 GRC districts (Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Willows, Westlake). Cal Water requested a program funding level equal to 1.5 % of revenues Cal Water will implement the conservation budget and conditions adopted by the Commission in the proceeding.
4. Cal Water has a request to authorize a memorandum account to increase conservation funding to the equivalent of 1.5% of revenues (A.06-10-026, which has been consolidated with I.07-01-022). Under this proposal, the memorandum account would be amortized in the forthcoming general rate case. When A.06-10-026 was filed, Cal Water contemplated the notion that its requested conservation funding would be implemented quickly. However, because of the generic issues, the application was consolidated with the Commission's policy investigation. Cal Water is hopeful that the Commission will authorize Cal Water to increase Water Conservation program expenditures subject to a memorandum account in phase 2 of this proceeding, which would provide Cal Water an opportunity to increase conservation spending before a final decision in this application.

Monitoring of Programs and Reporting

Cal Water is committed to monitoring the effect of conservation rates on its customers and successfully implementing WRAM and MCBA. The Settlement indicates that the DRA and Cal Water will develop a Memorandum of Understanding on data collection prior to implementing conservation rates. Cal Water will track customer consumption information for all customers and customer class including a sub grouping of customers using Cal Water's Low-Income Rate Assistance (LIRA) program. However, Cal Water does not plan to

collect information as to the theoretical rates and revenues that would have existed under previous rate designs. The Settlement provides detailed examples as to the data needed for implementing the WRAM and MCBA. This information will be included in Cal Water's annual WRAM and MCBA filing. The Cal Water WRAM is different than the Suburban, Monterey style WRAM. As a result, there is no need to compare revenues under current vs. conservation rates.

The Joint Comments request weather normalization data. Cal Water calculates a 12 month period weather normalization adjustment for most of its districts, but not all of the smaller districts. Cal Water will make this information available to parties upon request.

Cal Water believes that the focus of this proceeding should be water conservation, rather than low-income programs. Cal Water has a LIRA program. This proceeding should not consider further data collection issues on Cal Water's LIRA program, customer disconnects, or the number or size of residential arrears. The Joint Comment Parties' concerns about these issues should be directed to another proceeding.

Cal Water has no position on the Joint Comments regarding a study conducted by the Commission dealing with household size and income level. However, Cal Water would have concerns about such a study to be conducted by Cal Water where customer survey responses are tied to billing records. Cal Water's concerns include customer privacy and cost.

Customer Education

Cal Water is generally supportive of the parties' recommendations on consumer education. However, Cal Water would like to see the parties build on current Commission procedures rather than starting from scratch. The Joint Comments parties should take notice of the role of the Public Advisor's Office and

Commission policy regarding notice of rate increases. In addition, Cal Water has indicated that it “will provide bill insets to inform customers that the PUC has ordered the implementation of increasing tier rates to provide ratesThe bill insert will include sample bills for low, medium and high residential users and will be provided to the CPUC Public Advisor for approval prior to mailing.”²

Cal Water will comply with Commission notice requirements and coordination of its notice with the Public Advisor. Furthermore, Cal Water will include a notice regarding new conservation rates on the customer bill to alert customers to read the bill insert material on the new rates. In addition, Cal Water will include a summary of the rate design proposal in Spanish with a number to call to obtain more detailed information in Spanish in districts which Cal Water has previously targeted as a district with Spanish speaking customers.

Cal Water will contact CBOs to seek their assistance in communicating with customers on the new rate design. Consistent with its current LIRA program and timing of the new rate increase, Cal Water will “piggy-back” education on the new rate structure with Cal Water’s existing LIRA education program to the extent possible.

Cal Water agrees with the Joint Comments notion of water conservation programs focused on low-income customers. Cal Water’s conservation programs are based on the design and marketing of the California Urban Water Conservation Council’s Best Management Practices. Cal Water will work with the Council on design of low-income related conservation programs.

As noted in the section above on data collection, given that this is a “conservation” proceeding, Cal Water believes that the Joint Comments regarding coordination of LIRA outreach are not appropriate for this proceeding. The

² Application 06-10-026, testimony of David Morse, page 50.

Commission should not add new requirements on Cal Water's LIRA program in this proceeding.

In response to the comments of DisabRA, Cal Water is reviewing Government Code Section 11135 and its website procedures to assure that it is in compliance. Cal Water is also reviewing its customer contact information regarding access and notice to TTY numbers.

III. REPLY TO COMMENTS FROM CFC

The CFC has not provided the Commission with any new information, data, or references to past Commission policy that would provide the Commission with a basis to reject or modify the Settlement's provisions on WRAM or rate design.

Need for Conservation:

Cal Water agrees with the need for water conservation. Cal Water's application consolidated in this proceeding has requested increased funding for water conservation programs, decoupling, and conservation rates. Phase 1 and the Settlement deals solely with decoupling and conservation rates. Cal Water will further discuss water conservation program subsequent to Phase 1.

WRAM

The CFC indicates that the "WRAM is unnecessary for Cal Water in this case..." (page 3) but concedes that if rates were "designed to address current usage pattern in each district, and to send clear price signals... would justify implementation of a WRAM.... but not the WRAM..." that Cal Water has proposed.

The CFC position reflects a general lack of understanding as to the purpose of WRAM as advocated in the Water Action Plan and Commission rate making policy concerning decoupling. This results in an incomplete if not biased, "history" of WRAM.

CFC errors in characterizing the Cal American Monterey district’s WRAM as an example of Commission decoupling policy. The Monterey style WRAM was designed to make Cal American indifferent to changes in rate design. It does not remove the incentive to promote sales.

CFC errors in indicating the decoupling was instituted for electric utilities “under unique circumstances arising during the energy crisis.” While CFC refers to only one Commission decision in 2004, the Table below shows that the Commission began implementing decoupling for energy utilities almost 30 years ago.³ A careful review of past Commission decisions on decoupling indicates that the Commission implemented decoupling to remove the incentive to promote sales. Decoupling was not implemented solely because of the recent energy crisis.

Key Energy Decisions Regarding Decoupling

Utility -Date	Decoupling Issue	Decision #
SDG&E - 2005	Adopted a revenue balancing account	D. 05-03-023
Edison - 2004	Refined revenue balancing account	D. 04-07-022
PG&E - 2004	Adopted a revenue balancing account	D. 04-05-044
Edison - 2002	Reestablished decoupling after energy crisis.	D.02-04-055
Edison 1996	Reaffirms decoupling with Performance based rates.	D. 96-09-092
Edison - 1982	Established decoupling.	D.82-12-055
SDG&E - 1981	Established decoupling.	D.93892
PG&E - 1981	Established decoupling, known as Energy Revenue Adjustments Mechanism (ERAM).	D.93887
Gas Utilities - 1978	Established decoupling for gas utilities, known as “Supply Adjustment Mechanism.”	D.88835

CFC apparently does not understand the symmetrical nature of Cal Water’s WRAM Proposal. The Cal Water proposed WRAM makes adjustments for sales above the forecast level as well as sales below the forecast level.⁴

³ The testimony of David Morse in Cal Water’s original application, A.06-10-026 has a more detailed overview of decoupling,

⁴ The CFC example of the grocery store, only provides an example of increasing recovery, but not refunds to customers for over collection.

CFC discussion on rate of return issues are not appropriate for this phase of the Conservation OII proceeding. The settlement does not deal with the return on equity issues related to WRAM. These issues will be taken up by the Commission in phase 2. The CFC comments on this matter should be stricken or ignored.

Conservation Rates – In General

Cal Water believes that conservation rates should be conditioned on implementation of a WRAM, since the new rate design may result in over or under collecting revenue. The Settlement's proposed conservation rates lower service charges and create a higher tier in residential rates. This creates uncertainty as to revenue neutrality for customers and Cal Water. CFC provides no rationale for opposing a WRAM, CFC fails to note the risks to consumers of over collecting authorized revenues with a new rate design and finally, CFC offers no evidence that the policy CFC advocates has been previously accepted by the Commission.

The CFC has not given any weight to the fact that inverted rates are new to Cal Water's customers. Many of the CFC statements are based on a misunderstanding of the Settlement.

Residential Rate Design

CFC provides a critique of the settling parties rate design arguing in one instance that the rate design has too much of a discount for customers below average consumption and then later that the discount should be higher. CFC provides examples of rate design from Tucson, Albuquerque, Henderson, and North Las Vegas, with no analysis as to why rates in these areas are relevant to Cal Water.⁵ It is not clear if the rate design for these cities is new or has resulted in refinements over time. Also, CFC has offered no explanation as to the consumption patterns in these areas compared to Cal Water. Cal Water's customer

⁵ CFC references figure 13 from a report entitled "Water in the Urban Southwest," 2006 prepared by Western Resource Advocates. This report was introduced by DRA in Cal American's Los Angeles district general rate case, A.06-01-005. The report notes that the figure 13 rates do not include service charges, thus the average rate per unit of consumption is quite different than the marginal rates depicted in figure 13.

consumption patterns are heavily skewed toward low consumption. “That is, a large portion of customers account for a smaller portion of overall consumption, and a small portion of consumers account for a large portion of consumption.”⁶

CFC does not appreciate or understand the trade offs in designing rates. If consumers with high consumption are charged more, consumers with lower consumption will be charged less. CFC also does not understand the nuance of rate design, in its criticism of the differences between tiers one and two. (CFC page 14). Customers with consumption in the third tier will also have the benefit of rates in the first and second tier. Also, the heavily skewed consumption patterns create further challenges in balancing rates. Thus any discount in the first tier must be made up with even higher increases in the third tier. The settling parties carefully worked with these issues to provide rate increase signals to higher level consumption, but also to avoid sending the wrong price signal to customers with average or below average consumption. Also, the settling parties were concerned with “rate shock” which would lead to customer rejection of conservation rate design. In addition, the settling parties chose a rate design based on actual consumption data by district. Thus, the first tier is designed to provide a proxy for indoor use, since it is based on actual winter consumption patterns for each unique district.

Although some of the graphs included in the attachment may appear to result in minimal differences in total bills, Cal Water believes that the proposed rate design provides a reasonable incentive to conserve water:

- The Settlement provides for increases over the current residential rates in tier three of 20% or more in most districts. The major exception is districts where customers are converting from unmetered to metered service. In those districts the third tier is 12% to 15%

⁶ Testimony of David Morse A.06-10-026, page 41. In the case of Bakersfield, “26.1% of the residential customers have annual average consumption 13 ccf a month or less. However, those customers represent only 6.91% of total consumption.”

- Annual bills for larger use residential customers will increase by 7% to 25%. Customers with the largest levels of usage will see even greater increases.
- Customers with higher usage patterns will see the largest bill increases in the summer.
- The histogram type graphs illustrating changes in tiers clearly show significant changes in rates.
- The line graphs comparing bills under current and proposed rates have problems of scale. To get a truer picture of the difference between current and proposed rates, readers should review the “Change in Bills for Residential Customers with 5/8” x 3/4” Connections at Various Usage Levels.” This table provides a comparison of bills including percentage change at various consumption levels. This table is included in Attachment 1 of the Settlement for each of the Cal Water districts.

CFC errs in its inference that the proposed rates do not address the unique consumption patterns of the various districts in Cal Water.⁷ The rate design is based on the unique consumption patterns of each district, taking into account statistics on winter, average, and summer usage.

CFC provides no evidence to its statement that the proposed rates will not promote conservation and should thus be rejected by the Commission.

CFC errs in its statement that the proposed rates design has already been tried and found to be effective. Although increased block rates have been implemented in California for municipal utilities, investor owned utilities have not implemented conservation rates with the notable exception for Cal American’s Monterey district.

CFC apparently does not understand the settling parties’ rate design proposal since CFC characterized the proposal as “single design in all of its districts.” The settlement

⁷ See CFC comments page 2.

includes several distinctions in the rate design based on the unique characteristic of Cal Water's 24 districts. Page 3 of the Settlement lists three groupings of customers. The rate design proposal includes some of the following distinctions:

- Districts with reduced meter charges for residential customers
- Districts with metered and unmetered customers
- Districts with minimal seasonal consumption variation, warranting only two residential rate tiers (East LA and South SF).
- Districts with very high rates and low consumption, which do not warrant conservation rates
- Rate design for residential is based on the unique consumption matters within the district.

CFC provides no basis for its statement that a 10% increase within a tier would result in "No real price signal," thus the statement does not provide the Commission with any facts or insights to evaluate the rate design proposal.(CFC page 15)

CFC argues that "reducing bills sent to customers who use less than 25 ccf/month is not likely to foster conservation in the Stockton area." Yet CFC provides an illustration that would reduce bills to those customers much more than in the Settlement. For example, CFC indicates that the Settlement proposed rates for Stockton would produce bill reductions of -4% to -2% for various customer usages below the average. (CFC page 14). CFC presents a calculation for Stockton with bills being reduced by 4 to 35% depending on usage. (CFC page 16) If CFC believes that reducing bills to customers does "not foster conservation," the purpose of the illustration it is not clear.

The CFC errs in the statement that "Those who use less than the average family of four get no benefit from their lower use." (CFC page 16) The Settlement proposed rate design for residential customers results in discounts over the current rate for customer using lower levels of consumption. For example, as noted on the typical bill analysis for

Stockton,⁸ a customer using 10 ccf/mo. would see a 3.3% reduction in bills. In contrast, a customer using 60 ccf/mo. will have a 12.6% increase in their monthly water bill. The changes in bills vary for each district. However the pattern of lower bills for smaller levels of consumption is consistent with all residential rate proposals. The Settlement proposed rates are designed to provide a basic allowance for customers based on a proxy for indoor usage.⁹ Thus customers who do not have landscape water usage are likely to stay in the first tier, which has a discount over current rates.

CFC infers that the Settlement parties used information that was not available to CFC.¹⁰ CFC has not made any inquiries or data requests to Cal Water for additional information. In contrast, upon request, Cal Water has provided DRA and TURN with detailed usage information.

CFC provides no evidence for its claim that low-income customers “are less likely to use water for irrigation, landscaping and other outdoor uses...” (CFC page 17)

Cal Water disagrees with CFC’s recommendation that rates be based on “the amount of water needed to water an average sized residential property...adding an allowance per person.” (CFC page 19) CFC provides no insights as to why this method is superior to the Settlement. Cal Water does not have this information, thus it would be impossible to implement such a rate design at this time. The Settlement provides a first step in designing and implementing conservation rates. The CFC suggestion provides the Commission with no practical basis or roadmap to implement its suggestion. Cal Water’s

⁸ See settlement, attachment 1, page 56.

⁹ The Settlement’s indoor proxy appears to be consistent with data cited by CFC from Utah. The Utah study found that indoor water usage was 68 gallons per capita day. This is roughly equivalent to 8160 gallons for a family of four or about 11/ccf a month. However, Cal Water believes that the winter usage data by district provides a superior proxy than the Utah study, since it is based on usage by Cal Water customers. Cal Water also found that winter consumption varies between districts which may reflect issues such as price response, household size and income.

¹⁰ CFC page 17, “The parties, presumably, have usage data which could be used to come up with re-designed conservation rates.”

proposal is consistent with the direction from the Water Action Plan as well as the Commissions order to file conservation rates.¹¹

Non Residential Rate design

CFC does not understand the Settlement rate design proposal for non residential.¹² The non residential rate design changes are within the non residential sector. Thus, the lowering of the service charge results in low bills for a non residential customer who consumes less and higher bills for a customer who consume more. The non residential rate design has no effect on residential rates.

CFC errs in the statement that “Settlement rates provide no incentive for conservation among Cal Water’s business and industrial customers.” (CFC page 19). As noted above, lowering the service charge for non residential customers increases the quantity rates, which thus provides all customers with an incentive to reduce consumption. In addition, lowering of service charges is consistent with the California Urban Water Conservation Council’s Best Management Practices, BMP 11.

CFC has apparently not carefully read Cal Water’s testimony regarding the non residential sector and data issues. It is currently impossible to design rates for this class due to a lack of information and the wide range in consumption and usage.¹³ Thus, Cal Water disagrees with CFC that there would be no delay in implementing conservation rates for commercial customers. Moreover, “individual audits of industrial customers” (CFC page 21) would impose a cost on all customers and delay implementation of conservation rates.

¹¹ Cal water was ordered to file an “application that addresses the goals of the Water Action Plan by proposing an increasing block rate design for each of the districts in this general rate case...and an accompanying mechanism to decouple sales fro revenues.” D. 06-08-011, ordering paragraph number 3.

¹² “It appears that residential customers, under the Settlement, will absorb most of the increase in revenues required by Cal Water in Bakersfield.” CFC page 19.

¹³ The problems of data and non homogeneity are discussed in the testimony of David Morse, application A.06-11-026.

Cal Water was not ordered to propose non residential rates, its original application did not include conservation rate design for non residential. Cal Water agreed to conservation rates for non residential rates as part of the settlement with DRA and TURN. The Settlement proposal for non residential customers provides a reasonable first step for conservation rates given the non homogenous aspects of the non residential sector.

Date: July 6, 2007

Respectfully Submitted,

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CERTIFICATE OF SERVICE

**I HEREBY CERTIFY THAT I HAVE THIS DAY SERVED A COPY OF
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Executed on **July 6, 2007** at San Francisco, California.

/s/ Thomas F. Smegal
Thomas F. Smegal

NOTICE

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